

Message Text

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ORIGIN COME-00

INFO OCT-01 EUR-12 ISO-00 SIG-01 AID-05 CEA-01 CIAE-00
EB-08 EA-07 FRB-03 INR-07 IO-13 NEA-10 NSAE-00
USIA-06 OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01
AGRE-00 OMB-01 STR-04 INT-05 OES-06 /100 R

DRAFTED BY COM/BEWT/OEWPP/AJSMITH/BEWT/OEWCA/ESBOZEK
APPROVED BY STATE: EUR/SOV/WEDGAR
COM/BEWT/OEWPP/ALENZ
COM/BEWT/OEWCA/MGEORGE
COM/BEWT/OEWCA/FRIGGS
-----230708Z 049947 /15

R 230231Z MAR 77
FM SECSTATE WASHDC
TO AMEMBASSY MOSCOW
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AMEMBASSY WARSAW
USMISSION NATO
USMISSION OECD PARIS

C O N F I D E N T I A L STATE 064185

E.O. 11652: GDS

TAGS: EEWT, EFIN, UR

SUBJECT: V.V. MORDVINOV OF GOSPLAN USSR

REF: MOSCOW 3242 (NOTAL), 3303 (NOTAL), 3330 (NOTAL)

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1. SUMMARY. DURING MEETING AT DEPT. OF COMMERCE MARCH 18
V.V. MORDVINOV, A HIGH OFFICIAL OF SOVIET STATE PLANNING
COMMITTEE (GOSPLAN), DISCUSSED THE DOMINANT ROLE OF GOSPLAN
IN THE CONDUCT OF SOVIET FOREIGN ECONOMIC RELATIONS AND
MENTIONED SOVIET DIFFICULTIES IN PROMOTING LONG-TERM
COOPERATION AGREEMENTS WITH DEVELOPED WESTERN COUNTRIES.
MORDVINOV ALLEGED THAT FRG AND THE NETHERLANDS, FOR
EXAMPLE, AS WELL AS MANY WESTERN FIRMS, TAKE A NEGATIVE
STAND ON 'COMPENSATION AGREEMENTS' UNDER WHICH A WESTERN
FIRM SELLING CAPITAL EQUIPMENT TO THE USSR AGREES TO BUY

BACK LARGE QUANTITIES OF SOVIET RAW MATERIALS. MORDVINOV AVOIDED DIRECT COMMENT ON POSSIBLE PROBLEMS ARISING FROM HEAVY SOVIET AND EAST EUROPEAN FINANCIAL INDEBTEDNESS TO THE WEST, BUT ALLEGED THAT USSR STILL HAS LARGE QUANTITIES OF STATE-SUBSIDIZED WESTERN CREDIT AVAILABLE FOR USE. HE ALSO SAID THAT SOVIET OIL EXPORTS TO THE WEST WILL INCREASE ONLY SLIGHTLY OVER NEXT SEVERAL YEARS AND REAFFIRMED SOVIET INTENTIONS TO CONCENTRATE ON NATURAL GAS DEVELOPMENT AND EXPORT. HIS COMMENT THAT CONSTRUCTION IN USSR OF THE HUGE

KURSK STEEL COMPLEX, BEING UNDERTAKEN BY FRG FIRMS, "IS NOT GOING WELL,, WAS FOLLOWED BY THE COMPLAINT THAT THE WEST GERMANS OFFER LOW INTEREST RATES BUT THEN CHARGE HIGHER PRICES. ASIDE FROM SOME RELATIVELY MILD CRITICISM ON THE LIMITED PARTICIPATION OF US FIRMS IN COMPENSATION ARRANGEMENTS WITH THE USSR, MORDVINOV HAD LITTLE TO SAY ON US-SOVIET ECONOMIC RELATIONS AND REFRAINED FROM THE USUAL SOVIET POLEMICS ON HOW THE UNITED STATES IS LOSING OUT TO EUROPEAN AND JAPANESE FIRMS IN COMPETITION FOR SOVIET CONTRACTS. END SUMMARY.

2. ON MARCH 18 OFFICERS OF BUREAU OF EAST-WEST TRADE, DEPT. OF COMMERCE, MET FOR MORE THAN ONE HOUR WITH VLADIMIR V. MORDVINOV, CHIEF OF DEPARTMENT FOR ECONOMIC COOPERATION WITH FOREIGN (NON-COMMUNIST) COUNTRIES IN USSR STATE PLANNING COMMITTEE (GOSPLAN). THIS MEETING WAS CONFIDENTIAL

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FOLLOWED BY LUNCHEON PRIOR TO MORDVINOV'S VISIT TO TREASURY DEPARTMENT WITH OTHER ECONOMISTS IN HIS GROUP. MORDVINOV WAS RELATIVELY FORTHCOMING AND FRANK ON SOME SUBJECTS, EVASIVE ON OTHERS, BUT OVERALL DISCUSSION PROVIDED SOME USEFUL PERSPECTIVES AND INSIGHTS FROM A HIGH SOVIET OFFICIAL IN MOST IMPORTANT ECONOMIC ORGANIZATION IN USSR AND ALSO ONE WHICH IS TRADITIONALLY SEVERELY RESTRICTED IN CONTACTS WITH FOREIGNERS. THE FOLLOWING SUPPLEMENTS INFORMATION OBTAINED IN EMBASSY MOSCOW'S MEETINGS WITH MORDVINOV EARLIER THIS MONTH (REFTELS).

(A). GOSPLAN'S ROLE IN FOREIGN ECONOMIC RELATIONS - SPEAKING AS A VETERAN OF MANY YEARS IN MINISTRY OF FOREIGN TRADE (MFT) MORDVINOV STRESSED BROADER UNDERSTANDING OF SOVIET REQUIREMENTS AND ALSO THE ULTIMATE DECISION-MAKING POWER WHICH GOSPLAN HAS IN COMPARISON WITH MFT. ALTHOUGH MFT IS RESPONSIBLE FOR DAY-TO-DAY OPERATIONS SUCH AS FOLLOWING DEVELOPMENTS ON WORLD MARKET AND DEALINGS WITH FOREIGN FIRMS, GOSPLAN HAS PRIME RESPONSIBILITY FOR "INTERNAL NEEDS." CONSEQUENTLY, GOSPLAN REVIEWS AND COORDINATES REQUESTS MADE BY VARIOUS SOVIET MINISTRIES TO THE MFT ON THE BASIS OF SOVIET INTERNAL RESOURCE AVAILABILITIES. ONE RESULT OF THIS IS THAT AFTER A FIVE-YEAR BILATERAL TRADE AND PAYMENTS AGREEMENT IS SIGNED WITH

A FOREIGN COUNTRY (EITHER SOCIALIST OR NON-SOCIALIST), THE
MFT "TAKES THE CREDIT BUT GOSPLAN DOES MOST OF THE WORK."

(B). GOSPLAN'S ORGANIZATION IN FOREIGN ECONOMIC AREA -
ONLY THREE OF GOSPLAN'S APPROXIMATELY SIXTY DEPARTMENTS
(STAFFED BY MORE THAN THREE THOUSAND PEOPLE) ARE INVOLVED
IN FOREIGN TRADE AND ECONOMIC RELATIONS. THESE ARE (1)

THE FOREIGN TRADE DEPARTMENT, WHICH ATTEMPTS TO BALANCE
OVERALL TRADE, FINALIZES EXPORT AND IMPORT PLANS, AND IS
CURRENTLY WORKING ON FOREIGN TRADE PLANS FOR THREE DIFFERENT
TIME PERIODS - 1977, 1981-1985 AND 1976-1990; (2)
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DEPARTMENT FOR TRADE WITH SOCIALIST COUNTRIES, WHICH HAS
CLOSE WORKING TIES WITH THE CEMA SECRETARIAT; (3)
MORDVINOV'S OWN "DEPARTMENT FOR ECONOMIC COOPERATION WITH
FOREIGN COUNTRIES" WHICH DEALS WITH ALL NON-SOCIALIST
COUNTRIES, BOTH DEVELOPED AND THIRD-WORLD. MUCH OF THIS
DEPARTMENT'S WORK IS NOW CONCERNED WITH "LONG-TERM
ECONOMIC RELATIONSHIPS," SUCH AS INDUSTRIAL COOPERATION
AGREEMENTS, COMPENSATION AGREEMENTS, AND OTHER "NEW FORMS
OF ECONOMIC COOPERATION." MORDVINOV VOLUNTEERED THE FRANK
COMMENT THAT HIS DEPARTMENT'S EFFORTS "ARE NOT ALWAYS
SUCCESSFUL," AND THAT COORDINATION WITH FOREIGN COUNTRIES
IS OFTEN VERY DIFFICULT. EXAMPLES? "WE ARE CURRENTLY
NEGOTIATING A FIFTEEN-YEAR AGREEMENT WITH FINLAND, WHY I
DON'T KNOW." THIS WAS FOLLOWED BY COMMENT THAT "IT WAS
BEGUN AT REQUEST OF THE FINNS', KEKKONEN I BELIEVE, AND
IT MAY HELP BOTH SIDES." COMMENT: MORDVINOV WAS PROBABLY
REFERING TO THE 15 YEAR ECONOMIC COOPERATION AGREEMENT
PROPOSED BY PRESIDENT KEKKONEN IN 1975.

(C). COMPENSATION AGREEMENTS - AS HE HAS IN EARLIER
MEETINGS WITH AMERICAN OFFICIALS, MORDVINOV PUSHED
STRONGLY FOR INCREASED USE OF COMPENSATION AGREEMENTS AS
MEANS OF EXPANDING SOVIET TRADE WITH DEVELOPED COUNTRIES.
HE COMPLAINED THAT SOME CAPITALIST COUNTRIES, FOR EXAMPLE
THE FRG AND THE NETHERLANDS, "TAKE A NEGATIVE ATTITUDE
TOWARD COMPENSATION ARRANGEMENTS." AND AMONG THE FIFTY
COMPENSATION ARRANGEMENTS WHICH HAVE NOW BEEN WORKED OUT
AND PUT INTO EFFECT BY GOSPLAN, ONLY ONE -- THE OCCIDENTAL
PETROLEUM CONTRACT WHICH CALLS FOR OXY'S BUYBACK OF
SOVIET AMMONIA -- IS WITH THE UNITED STATES. IN RESPONSE
TO A QUESTION AS TO WHETHER THIS MIGHT BE PARTIALLY DUE TO
TARIFF AND NON-TARIFF BARRIERS, HE REPLIED "YES" AND CITED
THE SOVIET CONTRACT WITH PECHINEY OF FRANCE FOR AN ALUMINA
REFINERY NEAR ODESSA, INSTEAD OF WITH ALCOA OR KAISER OF
THE U.S., AS A SPECIFIC EXAMPLE. MORDVINOV CONCEDED THAT
MANY LARGE WESTERN FIRMS SHY AWAY FROM COMPENSATION
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AGREEMENTS BECAUSE THESE FIRMS ARE CONCERNED ALMOST EXCLUSIVELY WITH EXPOS AND DO NOT FEEL COMPETENT TO HANDLE A RETURN FLOW OF LARGE AMOUNTS OF RAW MATERIALS. NEVERTHELESS, HE HAS, HE SAID, STRONG HOPES THAT THE BENDIX SPARK PLUG PROPOSAL INVOLVING SOVIET RETURN EXPORT OF SPARK PLUGS AND MATERIALS FOR AUTOMOTIVE PARTS WILL BE SUCCESSFULLY NEGOTIATED.

(D). SOVIET AND CEMA FINANCIAL INDEBTEDNESS TO THE WEST - WOULD SOVIET UNION AND EASTERN EUROPE BE ABLE TO INCREASE THEIR EXPORTS TO THE INDUSTRIAL WEST AT A SUFFICIENT RATE TO COVER REPAYMENTS OF THE LARGE AMOUNT OF WESTERN CREDIT THEY HAVE BEEN RECEIVING? MORDVINOV DID SOME SIDESTEPPING ON THIS ONE. HE ALLEGED THAT THERE WOULD BE LITTLE OR NO FALL-OFF IN SOVIET PURCHASES OF WESTERN PLANTS AND CAPITAL EQUIPMENT BECAUSE OF SOVIET HARD CURRENCY TRADE DEFICITS, BUT HE POINTED OUT THAT THE USSR HAS ONLY PARTIALLY UTILIZED THE LARGE AMOUNTS OF WESTERN, STATE-SUBSIDIZED CREDITS WHICH HAVE NOT BEEN USED, SPECIFICALLY 25-30 OF THE UK LINE, 45-50 OF THE FRENCH LINE, AND ONLY A SMALL AMOUNT OF THE CANADIAN LINE. HE DID NOTE THAT THE ITALIAN LINE HAD BEEN COMPLETELY COMMITTED, BUT HE WAS CONFIDENT THAT THE USSR WOULD RECEIVE ANOTHER LINE SINCE "ITALY NEEDED OIL, COAL, AND COKE." HE MADE NO COMMENTS ON EAST EUROPEAN REPAYMENTS. HE ALSO COMMENTED HOWEVER, THAT FOR A NUMBER OF YEARS TO COME THE BULK OF SOVIET EXPORTS WILL BE RAW MATERIALS, ENERGY AND SEMI-PROCESSED GOODS.

(E). SOVIET OIL AND GAS EXPORTS - OVER THE NEXT FIVE TO TEN YEARS SOVIET OIL EXPORTS TO WESTERN COUNTRIES WILL INCREASE, ACCORDING TO MORDVINOV, "BUT NOT BY A LARGE AMOUNT." HE CONFIRMED REPORTS THAT LONG-RANGE SOVIET PLANNING CALLS FOR MAJOR CONCENTRATION ON NATURAL GAS PRODUCTION AND EXPORT. OIL INDUSTRY DEVELOPMENT WILL BE SLOWER. "SOMETIMES WE EXPECT TOO MUCH FROM OUR OIL CONFIDENTIAL

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INDUSTRY."

(F). WESTERN INFLATION AND SOVIET FOREIGN TRADE STATISTICS - IN ONE OF SEVERAL OBLIQUE SWIPES AT HIS FORMER COLLEAGUES IN THE MFT, MORDVINOV POINTED OUT THAT RAMPANT WESTERN INFLATION OVER THE PAST FIVE OR SIX YEARS HAS RESULTED IN SOME MISLEADING IMPRESSIONS BEING DISSEMINATED IN SOVIET FOREIGN TRADE STATISTICS. THE FIGURES FOR SOVIET IMPORTS FROM WESTERN COUNTRIES MUST BE ADJUSTED. THUS, ALTHOUGH SOVIET IMPORTS FROM THE DEVELOPED CAPITALIST AREA MAY APPEAR TO HAVE DOUBLED OR MORE THAN DOUBLED LAST YEAR, THEY ACTUALLY INCREASED ONLY 1.6 TIMES. AND ALTHOUGH

FOREIGN TRADE MINISTER PATOLICHEV CLAIMED TO HAVE FULFILLED HIS FIVE-YEAR FOREIGN TRADE PLAN IN THREE YEARS, HE FAILED TO MENTION THE IMPACT OF WESTERN PRICE INCREASES.

(G). KURSK STEEL COMPLEX AND COMMERCIAL RELATIONS WITH FRG - ASKED ABOUT PROGRESS ON THE KURSK PROJECT, MORDVINOV MADE THE INTERESTING COMMENT THAT "IT IS NOT GOING WELL." HE GAVE NO FULL EXPLANATION AS TO WHY, ALTHOUGH HE IMPLIED THAT DISAGREEMENT OVER PRICES AND INTEREST RATES IS AN IMPORTANT FACTOR. HE COMPLAINED THAT THE GERMANS WILL, OF COURSE, OFFER A LOW INTEREST RATE FOR EQUIPMENT FINANCING BUT THEN ADD A SUBSTANTIAL AMOUNT TO PRICE. (COMMENT: THIS IS ANOTHER INSTANCE WHERE BUREAU OF EAST-WEST TRADE HAS HEARD A SOVIET OFFICIAL COMPLAIN IN A MATTER-OF-FACT MANNER ABOUT A PRACTICE WHICH HAS BECOME STANDARD PROCEDURE IN MANY COUNTRIES AND WHICH SOVIETS HAVE APPEARED TO ACCEPT RATHER THAN AGREE TO PAY HIGH WESTERN INTEREST RATES. END COMMENT.)

(H). CHANGES IN USSR FOREIGN TRADE SYSTEM - IN RESPONSE TO A QUESTION ON RUMORED CHANGES WITHIN THE MINISTRY OF FOREIGN TRADE MORDVINOV WAS VERY ELUSIVE, SAYING ONLY THAT SOME FTO'S MAY BE GIVEN INCREASED RESPONSIBILITIES TOWARDS CONFIDENTIAL

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END-USER MINISTRIES. HE DID, HOWEVER, VOLUNTEER THE COMMENT THAT LAST FALL MEASURES WERE OUTLINED TO PLACE MORE EMPHASIS ON EXPORT-ORIENTED INDUSTRIES IN AN EFFORT TO UPGRADE THE QUALITY OF SOVIET MANUFACTURED EXPORTS TO WORLD MARKET STANDARDS. ALTHOUGH PRESSED, HE DECLINED TO PROVIDE ANY DETAILS ON THESE TWO SUBJECTS.

(I). US-SOVIET ECONOMIC RELATIONS - MORDVINOV ASKED ABOUT POSSIBILITIES OF REPEAL OF JACKSON-VANIK AMENDMENT AND HAD NO COMMENTS AFTER HEARING EXPLANATION OF NUMEROUS COMPLEX POLITICAL AND ECONOMIC FACTORS, INCLUDING HUMAN RIGHTS, INVOLVED IN WORKING OUT CHANGES IN US POLICY ON TRADE WITH USSR. INTERESTINGLY -- ASIDE FROM HIS COMPLAINT REGARDING LACK OF INTEREST OF US FIRMS IN COMPENSATION AGREEMENTS -- HIS COMMENTS WERE COMPLETELY FREE OF POLEMICS AND HE DID NOT RECITE THE THREADBARE SOVIET LITANY THAT US FIRMS ARE LOSING AND WILL LOSE HUGE CONTRACTS TO JAPAN AND WESTERN EUROPE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 22-Sep-1999 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOREIGN RELATIONS, MEETINGS, DIPLOMATIC DISCUSSIONS, ECONOMIC AGREEMENTS, INTERGOVERNMENTAL COOPERATION
Control Number: n/a
Copy: SINGLE
Sent Date: 23-Mar-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE064185
Document Source: ADS
Document Unique ID: 00
Drafter: COM/BEWT/OEWPP/AJSMITH/BEWT/OEWCA/ESBOZEK
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Expiration:
Film Number: D770099-0122
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t197703111/baaaevms.tel
Line Count: 267
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Message ID: 2ba501b0-c288-dd11-92da-001cc4696bcc
Office: ORIGIN COME
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: MOSCOW 3242 (NOTAL), 3303 (NOTAL), 3330 (NOTAL)
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 14-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2965157
Secure: OPEN
Status: NATIVE
Subject: V.V. MORDVINOV OF GOSPLAN USSR
TAGS: EEWT, EFIN, UR, US, (MORDVINOV, V V)
To: MOSCOW INFO BELGRADE MULTIPLE
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/2ba501b0-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009